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The Big Soviet Wheat Deal

By JOHN FIALKA
Star-News Staff Writer

The 1972 Russian wheat deal, now the target of at least a half dozen investigations, is emerging as a James Bond-like intrigue which may prove to be an expensive lesson in international trade for the United States.

A Star-News study of the Russian purchase—one of the largest and most

This is the first of four articles on the U.S.-Russian wheat deal.

complex short-term commercial transactions in history—shows that:

- A fast-dealing Russian grain buying team was able to corner one-quarter of this nation's 1972 wheat crop operating in almost total secrecy. Incredibly, the highest officials at both the Agriculture and Commerce Departments insisted later they did not become aware of the magnitude of the Soviet purchases until after their completion.

- The secrecy, which led many U.S. farmers to sell their wheat cheap, was actually assisted by the Department of Agriculture, which suppressed two reports detailing Russian wheat crop disasters that were prepared in July and August.

- News of the immense purchases finally broke in August only after a trade publication received a series of strange telephone calls from one "John Smith," who claimed to belong to a British intelligence unit. His true identity and nationality remains a mystery.

- While belated public interest in the wheat deal has centered on charges of inside information and windfall profits within the grain trading industry, the greatest manipulation of the U.S. marketplace may have been carried off by the Russians.

The impact of the trade: Demolished a federal export subsidy system; pitted U.S. trading companies against each other; has sent 30 bread and food products companies before the Price Commission seeking immediate increases; and may be the reason why Russian ships are reported to be unloading flour in Chinese ports for shipment to Hanoi.

Some investigators believe that \$500 million in benefits to taxpayers resulting from the trade, touted by the administration, will soon be substantially exceeded by the costs of the sale, including subsidy payments and retail price increases. Baking industry spokesmen believe that consumers may even be in for a small bread shortage as part of their share of the deal.

IT ALL BEGAN quietly, very quietly, on June 29, with a few phone calls from a suite in Washington's Madison Hotel.

Two teams of Russians unexpectedly had arrived in the United States. One team was headed by Soviet Foreign Trade Minister Nikolai S. Patolichev.

Deal

Its mission was to work out the final terms for a three-year credit agreement under which Russia would promise to buy \$750 million worth of U.S. grain.

While Patolichev's team began calling on U.S. officials, members of the second Russian group swung into action. Their mission, as it eventually developed, was to buy over \$1 billion worth of grain immediately and mostly on a cash basis.

The second team was headed by Nicolai Belousov, a tall, rugged, 50-year-old trading expert who, in the words of one U.S. grain trader, has "as intimate a knowledge of our grain farming system as any man I've ever met."

Belousov is the president of Exportkhleb, the Soviet trading organization that in normal years, exports wheat. For the Russian farmers 1972 was decidedly not a normal year.

A draught in the Ukraine had left much of Russia's winter wheat crop without its usual protective cover of snow. An unusually severe cold snap in January may have frozen as much as 30 percent of the crop in the fields.

BAD WEATHER had also delayed the planting of the spring wheat crop in the so-called "new lands" area in western Siberia, which would make complete harvesting difficult before winter closes in.

The phone calls made by the Belousov team went out to executives of four of the world's largest grain trading firms, one of the most secretive businesses in the United States.

Most of the huge grain trading firms are privately held, not listed on any stock exchange. Because trading in agricultural commodities is often highly competitive, secrecy is tight and relatively little is known of the firms' activities.

One of the calls went to an elegant, French-style chateau on the outskirts of Minneapolis, headquarters of Cargill, Inc. W. B. Saunders, Cargill's vice president and chief trader, was in Chicago at the time.

He placed a return call to Leonid Kalitenko, Belousov's assistant, and asked him what was on their agenda. "Oh, we just want to talk, and talk, and talk," replied Kalitenko, who speaks almost flawless English.

Another call had gone out to a richly furnished suite of offices in a skyscraper at the foot of Manhattan, overlooking the Statue of Liberty, where Cargill's chief competitor, Continental Grain Company, has its offices.

(According to a consensus of industry sources, Cargill controls 5 percent of the export market and Continental dominates about 20 percent.)

MICHEL FRIBOURG, Continental's president was finally located at a business meeting in Paris. He and a group of company officials, including Gregoire Ziv, a Russian-born customer-relations man, quickly boarded a plane for New York.

By the time Saunders' negotiating team from Cargill arrived in Washington on Saturday, Jan. 1, the Russians had also talked with the officers of two other trading companies, the Bunge Corp., an Argentine-owned firm, and Cook Industries, Inc., which has headquarters in Memphis.

Saturday, as Saunders recalled later, was a frustrating day for Cargill. "They kept talking about corn and barley. I mentioned wheat and they just changed the subject back to corn."

Finally, after taking the Russians to lunch, Saunders said the Cargill was prepared to negotiate. The Russians replied "we'll call you," and the Cargill team went back to Minneapolis.

On Sunday, Ziv from Continental called at the Madison and offered to take the Russians on a tour of the city. One of the first people they met on the tour was Clarence Palmby, who had resigned as assistant secretary of agriculture on June 8 to become a vice president of Continental.

As Palmby remembers that day, no business was discussed. Because Ziv was an "old friend," he agreed to help him show Kalitenko and another Russian, a Mr. Goldobenko, the sights of Washington.

"WE DROVE AROUND the Washington Monument and up Pennsylvania Avenue, past the White House. It was a day off for them," Palmby recalls.

Palmby has since come under severe criticism for his alleged role in the wheat deal, mainly because on April 5, shortly before he headed a U.S. credit negotiating team to Moscow to attempt to bargain for grain sales, he bought an expensive condominium apartment in New York, using Fribourg as a reference.

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